



CO-OPERATION  
IN  
CHINA AND JAPAN

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*Foreword*  
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## Foreword

It is with pleasure that I write these few words to commend this short study of CO-OPERATION IN CHINA AND JAPAN to cooperators and cooperative officials in India. It has been unfortunately too common with us in India to study the progress of Cooperation in Europe and America only, to draw inspiration from special features there, and to try to copy their methods. The rural credit organisation of Germany, the consumers' store organisation of Great Britain, dairying in Denmark and the Netherlands, the labour contract societies of Italy and the great marketing organisations of America arrest our attention and we strive to introduce such types in our own land. The Far Eastern lands have been however neglected all these years and but few economists and cooperators in India know anything about cooperative developments in our great neighbours—China and Japan, where conditions are in several respects more similar to those obtaining in our own country and which can have therefore more fruitful lessons to teach us. I welcome therefore Mr. Agarwal's study of the Movement in China and Japan and trust that this will stimulate further and more detailed studies not only of these two countries but also of Burma and Malaya, Indo-China and Indonesia. All these monsoon lands, weak politically and yet rich potentially, are typical regions where the great principle of cooperative endeavour under the strong drive and stimulus of a national government should find the most congenial soil.

Credit has been so far the great obsession of the movement in India. The salvation of the agriculturist has been sought in cheaper and regulated credit ignoring the fact that while credit is a great blessing when applied to productive uses by intelligent men,

it is a curse to ignorant and illiterate masses, who misapply the loans in unproductive ways, so that it serves rather to increase their indebtedness than to decrease it. The state in India has not been quite keen enough and has always grudged expenditure on cooperation which is such an excellent instrument for rural betterment and prosperity, forgetful of the fact that a very large part of its revenues are derived from land. Nor have national leaders, engrossed in the fight for political freedom, supported cooperation which has so far appeared to them to be a State Policy rather than a popular movement. The emphasis has now happily shifted and has been switched on from credit to non-credit—to marketing, supply and small scale industries; foreign domination is about to end; and India is embarking on the path of political freedom. There is now no more excuse for cooperation to continue to fail. What could not be achieved in the last forty years will and must be achieved in the next few years.

The Induscos of China have arrested the attention of workers in India. The great work these cooperatives did in China has aroused our admiration and stimulated a desire to copy the model. While there is no doubt whatever that under the changed political condition in India, a great deal of useful work can be done by Indian Induscos, one has to be cautious. The success in China was in no small measure due to the special war conditions in that unhappy land. The Induscos were a war creation; the Chinese were fighting with their backs to the wall; and these cooperatives were an essential part of their gallant and heroic war effort. It remains however to be seen how far these will continue to run successfully when the clarion call to duty and sacrifice is drowned in the rising tide of individualism and the competitive instincts of peace times.

Of cooperation in Japan, one can hardly judge fairly to-day. From being an extremely go-ahead state in trade and industries, from being one of the world's great powers, it is to-day under the heels of the victors in the Great World War. How it ultimately emerges from the cataclysm, into which its own aggressive policy has plunged it, remains to be carefully watched. In Japan, it is of interest to note, the emphasis has been on multi purpose societies. This has now been accepted, in theory at any rate in India, as the correct approach to the rural problem ; and we hope the numerous credit organisations will soon change themselves into multi-purpose societies. The agriculturists everywhere is but a simple man and it is best to provide him with one good organisation to meet all his wants and not different weak societies for his different needs. Besides, when popular leadership is so difficult to secure, it is entirely utopian to expect a large number of honorary workers to come forward to act as large number of honorary workers to come forward to act as efficient guides in finance, supply, sale and industries.

While state initiative and state control are features which the Movement in India shares with the movements in China and Japan, the State in India has not financially interested itself as fully as in those countries. Opinion in India however is fast veering round to the need for fuller financial assistance by the state. It must however be remembered that initiative, financial assistance and control of the State should not lead to cooperatives ceasing to be voluntary associations of small men for their economic betterment and becoming instruments of state action, the societies being managed practically by State officials, who in their lower cadres can hardly be expected to be imbued with the Cooperative ideology which involves a spirit of service and sacrifice in the inte-

rests of the masses. While the world to-day is struggling to raise the standard of living, it must be recognised that Cooperation is the only economic structure of society that aims at raising the standard, not of individuals but of groups and through them of the entire nation. It is not too much surely to hope that the next few years will witness a reorientation of the Cooperative Movement in India, which under the stimulus of a national government and under popular leadership will emerge as the great successful instrument of rural reconstruction and the economic regeneration of the masses.

*Ridge Road, Malabar Hill,  
Bombay, 29th May, 1946.*

H. L. KAJI.

## Preface

*This is a brief but factual study of the co-operative movement in two of the far eastern countries. In both cases there has ever existed an element of 'working together'. In both cases the modern co-operative movement was introduced by the State and is as old as the movement in India. While the movement has succeeded admirably in the two countries, it is not as true of the Indian co-operative movement. The study reveals some characteristic features of the two movements—features which may be termed by some as the basic reasons for their success. But it must be stressed that to no small extent it is due to the presence of a State interested in National Welfare.*

*I am aware that the study is not based on statistical data to the full extent : but that is because the data themselves are not available fully. I would wait till more data could be collected but for the feeling that such a study is long overdue.*

*I am deeply indebted to Dewan Bahadur Hiralal L. Kaji, President, All India Cooperative Conference, 1946, for very kindly contributing the foreword.*

Mahesh Chand.

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## *CHAPTER ONE*

### CO-OPERATION IN CHINA

Like India, China is another country which is not potentially poor. She is one of the richest countries. For centuries China has been having an agrarian economy with self-sufficiency as its chief feature. The handicrafts have been organised on a family basis. The family system has taught the Chinese to work together in groups. As in India, the producer element has been dominant among the villagers. Although mutual benefit and loan societies have existed from time immemorial among the Chinese peasants, they still labour under the burden of high interest-rates and a wasteful system of distribution. The problem with the Chinese too has been, not that of lowering prices but, of raising the income through better marketing facilities and cheaper credit. A study of the co-operative movement in China is therefore important for us, more so because the Chinese co-operative movement also came from above.

### A Beginning Is Made

It was Dr. Sun Yat Sen, the founder of the Chinese Republic, who conceived of the idea of the planned co-operative economy as a national policy. Through his initiative the co-operative movement in China began with the establishment of the Shanghai National Co-operative Savings Bank by Professor Hsieh in 1919.

Before 1919 (and really till 1936) the co-operative societies came under general commercial law. The only Act which could be said to favour the formation of co-operatives was that passed in 1915 for the formation of agricultural and industrial banks with limited liability. The banks formed under the Act could lend money for agricultural supplies, marketing and improvements, without any security, to groups of agriculturists and to credit societies under certain conditions. The conditions were that the group must have at least ten agriculturists with unlimited liability; and the society must have adequate capital and two such societies must stand sureties. Loans were in turn given by the societies for the purchase of grains, seeds, fodder, livestocks and implements and even for the repayment of old debts. Forty per cent. of the loans were for sums less than twenty dollars.

But the co-operative movement did not grow until after 1922. Unlike India where the co-operative movement grew out of the much-broadcasted chronic indebtedness, the Chinese co-operative movement has been hastened by the famines of the dry and devastated regions of North China. In 1922 the China International Famine Relief Commission appointed a committee to make suggestions for credit and economic improvements. As a result, the University of Nanking formed the Feng Ken Co-operative Credit Society

of vegetable growers with the help of a grant from the Famine Commission.

By 1929 the number of societies within the purview of the Commission rose to 816 with a membership of 22,000. From 1927 onwards the establishment of co-operative societies in the rural areas was also encouraged by the other provincial governments. In the same year Professor Hsich'i drew up a plan for the development of co-operative on a nation wide scale. This was approved by the National Government but could not be given effect to due to lack of funds. Apart from state recognition of the co-operative movement a Co-operative Union was established in 1928 to study the theory and development of co-operation and to encourage the movement in the country. But the increasing interest of the State soon overshadowed it and by the end of 1935 the movement had become purely governmental. Full state support had really been assured by an Act of 1931.

In 1936 regulations were made for co-operative banks which were classified in three groups *viz.*, National, Provincial and County. These banks are to be organised as credit institutions financed by the government. Although no minimum membership is laid down by law, in practice a society is not formed unless it has sixty members. Each member must purchase a share and pay one-fourth of the value at the time of admission. The balance may be paid in instalment within a reasonable period. A member cannot hold more than one-fifth of the total paid up shares. The system of limited liability by guarantee is encouraged in practice. Each member has one vote and voting by proxy is permitted. Unlike the practice elsewhere, a dividend on the share-capital is allowed before allocations are made to the reserve fund. A share-transfer fund up to five per cent. of

the paid up share capital is to be built up and contributions to it must be made before any dividend is declared.

The members of the co-operative credit societies can apply for loan directly to the co-operative banks in the name of their societies : they have to provide proof of their character and that they would use the loan productively.

### Progress

An Act of 1935 classified the societies into four grades and in order to eliminate the inefficient and shady societies those falling in the last grade were liquidated. As a result, the number of societies was greatly reduced. In the province of Kiangsu the number decreased from 1793 in 1935 to 1102 in 1936. The distribution of the societies in Kiangsu after the Act of 1935 is representative of the position in China. Most of the societies were for productive purpose. Unlike India, where 81% of the societies are for credit purpose, the number of credit societies was not even one-fourth of the total number :—

<i>Function</i>	<i>Number</i>	<i>Percentage</i>
1. Credit	265	24.0
2. Production	552	50.1
3. Marketing	145	13.1
4. Supply	68	6.2
5. Consumers' Store	50	4.5
6. Utility	10	1.0
7. Insurance	1	0.1
8. Others	11	1.0
	1102	100.0

The average membership per society was 33. In 1936 there were in China about 37,000 co-operative societies. In 1937 the number jumped to 47,000 and since then the in-

crease has been rapid. The statistics given below show the position well :—

Year	No. of societies (In thousands)	Percentage Increase over previous year	No. of members (In mil- lions)	Members per society	Percentage increase over pre- vious year
1936	37	—	—	—	—
1937	47	27.1	2.1	44.1	—
1938	64.5	37.2	3.1	48.1	7.6
1939	91	41.1	4.4	48.4	0.6
1940	120	—	6.0	50.0	3.3
1941 (for free China)	107	—	5.9	55.1	10.2
1944	160	—	15.3	95.7	73.7

As is evident from the figures of percentage increases, both in the case of societies and membership, the rate of expansion is itself increasing.\* This is a very hopeful sign, although it is to no small measure due to the Japanese invasion. In fact this external aggression gave rise to a unique movement in China. The reference is to the Indusco (short for Industrial co-operatives) Movement which is dealt with at length in a later chapter. However, not only did the membership increased, but the share capital per society also increased from 185 Chinese Dollars in 1936 to 234 Chinese Dollars in 1941. But the share capital per member decreased from 5.1 to 4.3 during the same period. Figures are not available for the owned capital and the working capital. It is true that the co-operative movement in China has not rendered as great a service to national reconstruction as was expected. Yet at present it is estimated to touch about two and a half per cent of the population ; to that extent it has made better

\* No such tendency is discernable in the case of India :

progress than that in India where the members still constitute less than two per cent. of the population.

According to a recent issue of Cooperative Information (No. 7 of 1945) the structure of the movement is becoming non-credit increasingly, as evident from the following percentage distribution of different forms of societies.

Function	Percentage		Number	
	1940	1944		
1. Credit	87	41.2		
2. Agricultural Production	8.7	16.8		
3. Industrial Production		5.0		
4. Supply	0.4	8.7		
5. Marketing	2.0	10.6		
6. Consumers	1.4	13.0		
7. Others	0.5	4.7		
	—	—		
	100.0	100.0		

An important feature has been the growth of consumers' societies which now number 37,738. These are being rapidly liked with women's industrial cooperatives producing goods of domestic requirements. They have helped to keep down the prices of consumers' goods. The industries cooperatives too have been growing rapidly and what is more, they are concentrating on improvement of the quality of their goods. The number of federations, mutual aid societies and probational societies has also increased to 10,000.

Year	Societies	Increase (%)	Membership per society	Increase (%)
1939-40	137		44.4	
1940-41	143	4.4	44.8	0.9
1951-42	145	1.4	46.5	3.8
1942-43	146	0.7	48.1	3.4

A few words about the agricultural credit societies in China. The statistics given below show how the rural credit in fifteen provinces of China has been provided:—†

Source	<i>Percentage of rural credit provided in—</i>				
	1938	1939	1940	1941	1942
Banks	8	8	10	17	19
Indigenous banks	3	2	2	2	2
Pawn shops	13	11	9	9	8
	14	13	13	13	10
Individuals	43	41	38	27	21
Government	2	2	2	4	6
Co-operatives	17	23	20	30	34
Total	..	100	100	100	100

It is clear that the credit provided by the co-operatives is increasing. But the interest that is charged by individuals is still high. A two per cent. rate of interest per month is ordinarily charged : but twelve per cent. per month is also not uncommon. The lowest interest-rate charged by the credit agencies is about 0.4 per cent. monthly.

According to a survey made by the Nanking University, seventyfive per cent. of the loans have been taken for the purchase of fertilisers and for buying and raising cows and horses. In fact most of the loans given by credit societies are for productive purpose and not for repayment of debts or some other unproductive work as has been the case in India :—

† Bombay Co-operative Quarterly, July, 1943.

<i>Purpose of taking loan</i>	<i>Percentage of total loan given</i>
1. Purchase and raising of livestock	52
2. Fertilisers	23
3. Better seeds	9
4. Labour charges for food production	3
5. Implements	2
6. Others	11
	100

Due to the non-availability of statistics, it is difficult to say what is the position in regard to the repayment of loans.

#### *State and Cooperation*

In order to give a fillip to the movement, the Chinese Government established a Central Co-operative Administration in 1938. It did not take long to conclude that stress should be laid on co-operative education and training and on the development of purchase and sale societies. Consequently in 1939 a Central Co-operative Institute was established to train the co-operative workers. With a view to help the industrial and consumer societies, a National Wholesale Co-operative Agency was set up, which established its branches and allied wholesale organisations in the different provinces of China.

In 1940 the Co-operative League of China was established. It is to have a branch in every province and a sub-branch in every county. At the headquarters there are committees for the various types of societies (to be particular, for agriculturist, industry, marketing, consumers, insurance, utility and banking) and one for Education. The League is rather a planning body.

Like every other country China is also drifting towards a planned economy. The opinion is held that state-owned

industries plus co-operative organisations will form the best basis of the planned economy. Co-operative societies are therefore being developed by the State. The co-operative rules and regulations have been relaxed and even the societies which are below the official standard, are provisionally registered on an annual basis : loans are also granted to them for productive work. Those that do not show success within a year are dissolved.

In 1940 a Congress was held by the Ministry of Social Affairs. (It was of opinion that co-operation was to be no longer a laissez-faire organisation) and that it must play a fundamental role in the National Socio-Economic Reconstruction.) It had adopted a three year plan to promote the formation of a co-operative society in each Pao (municipality), to arrange for the training of officers and members, and to coordinate the different phases of co-operative activity so as to increase the share of co-operative production, purchase and sale to over fifty per cent. of the national total.

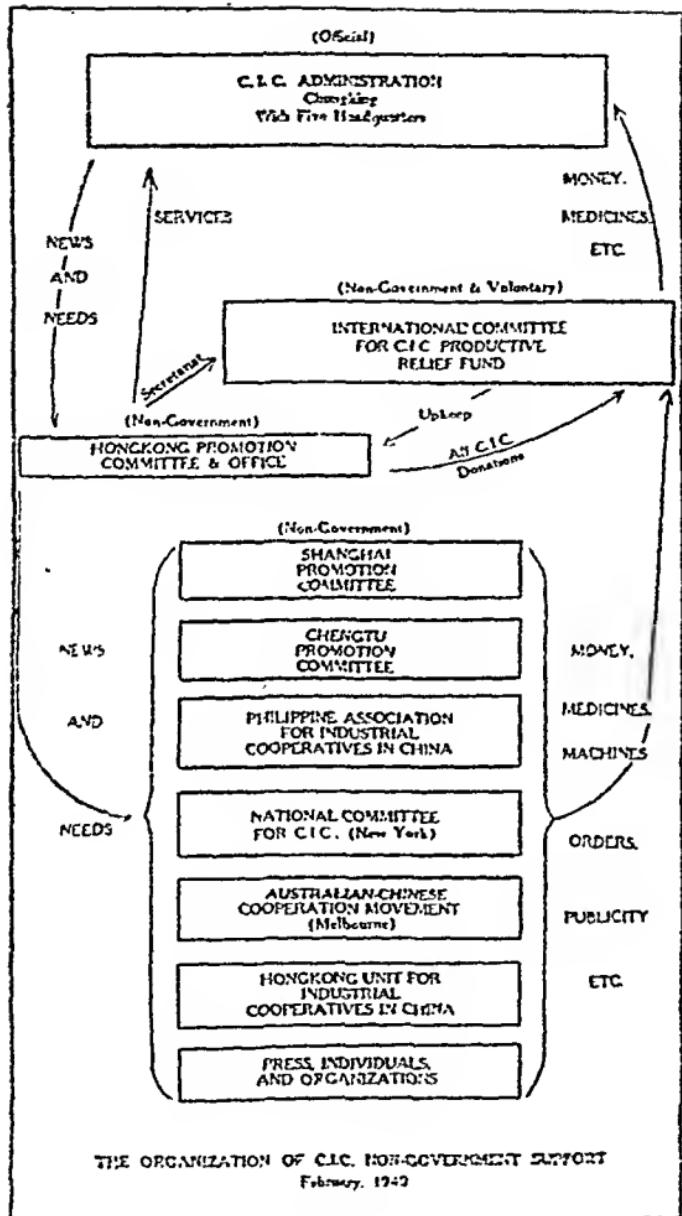
In 1940 an Act for Planned Development of the Local Co-operatives was passed which provides for a multi-function society in every county, a multi-purpose district society in every Hsiang<sup>f</sup> and a multi- purpose co-operative union for every forty hsiangs. The multi-function society is to combine many functions such as those of producer, consumer and marketing societies. There is no mention of the credit function. It cannot be clearly stated whether it means that credit function is not to be combined with non-credit functions or that the omission only indicates that credit is no longer to be over emphasized. The State does not seem to be ignorant of the necessity to reform the system of co-operative finance before any comprehensive plan of co-operative

<sup>f</sup> A Hsiang consists of five to six counties.

reconstruction can be carried into effect. The Congress of 1940 had observed that the co-operative banks have done business without any coordination and that they should be assigned definite functions by the State. It also recommended the establishment of a Central Co-operative Bank (at the top of the provincial and district co-operative banks) with a share capital of a hundred million dollars to be subscribed by the co-operative societies. The shares may be taken up substantially by the government in the first instance.

### Conclusion

However, it may be noted in conclusion that the Chinese Government has realised the importance of co-operation in the field of production, marketing and consumption. It is spending large sums of money to bring about a rapid growth of the co-operatives of the multi-function variety. It is likely to suffer from the defects of a forced growth because proper education and training in co-operative principles and technique are also receiving attention. The history of the co-operative movement in China should be an objective lesson to the governments in India. They should also shed their inefficiency and insincerity, develop multi-purpose societies, particularly in the non-credit sphere, and promote co-operative education.



## *CHAPTER TWO*

### THE CHINESE INDUSTRIAL CO-OPERATIVES

China, the land of agriculturists, of people with small purchasing power and a low standard of living, has suffered most due to the contact with the west. The western machineries destroyed her handicrafts and the cheap import of consumers' foods gave no chance to the Chinese to increase their incomes by utilising the vast and untouched resources of their country. As a result the Chinese are less self-sufficient with lower incomes and greater unemployment. The solution has been the introduction of a scheme of production which will cause the employment of the greatest number of Chinese and which will place on the market goods made in China which the Chinese like to buy. To begin with, large scale industries were not—are not—possible. Even if it had been possible, it is doubtful whether that would have solved the problem. Small scale and cottage industries using some of the mechanical means of production and cheap power would do. But an opportunity was badly needed.

The outbreak of war between China and Japan in the summer of 1937 provided the needful. With the occupation of the coastal parts by the Japanese and the demolition of the industries, there was a tremendous inpour of refugees including skilled labour and the natives of the interior provinces. It was essential to feed and clothe them and to help them to become independent productive members. Above all, if the country was to be saved, the military requirements must be supplied, otherwise they would have to go under the Japanese jackboots and would become a Japanese colony. Large scale industries on the lines of those destroyed on the Chinese coasts could not be started and sent into production overnight : yet China could not afford to lose time. Moreover, large enterprises requiring a large number of workers would be situated near large centres of populations and would thus be exposed to the danger of air-raids. They would not be mobile. In every respect, therefore, it was time to start small scale and cottage industries. Incidentally, it would also mean the development of the hinterland.

### A Start is Made

In April, 1938, a group of enthusiasts in Shanghai, which later functioned as the Shanghai Promotion Committee, drew up a draft plan for the establishment of 30,000 co-operative production societies. The plan was submitted to the National Government which approved it. With the help of the funds to be provided by the state, producer societies were to be formed in three zones :—

1. A zone of guerilla industry in the fighting area and even behind the Japanese lines. The societies were to be mobile enough to evacuate at short notice and were to make light munitions, medical supplies etc.
2. A middle zone in areas further to the rear where

permanent units were to be established to produce small scale armaments and daily necessities.

3. A third zone in the interior where there would be no danger of bombing. Here were to be organised societies running plantations and mills to supply machines and other essentials for the other two zones.

All the societies were to function on the co-operative basis. Due to the fast changing of the battle front and the removal of seat of the Chinese Government, the zone of the guerilla societies was organised last of all.

### **Constitution of The Societies**

The constitution of the societies was originally drawn up by Mr. Campbell, a co-operative expert from the League of Nations. It has been since revised in the light of the experience gained.<sup>1</sup> According to the model constitution for the Chinese Industrial Co-operative Society, briefly known as the Indusco, each society is an independent unit which must have a minimum number of seven members. Not infrequently the limit has proved to be too small and uneconomical. However, the membership is open to all persons resident within the area of operation of the society provided they are honest, of good character, able to earn in the business of the society, of sound financial position and one who has not been deprived of civil rights. The upper limit to the membership is set by the number justified by the economic condition of the business of the society. Each member has to purchase atleast one share usually of the value of two Chinese dollars but the initial contribution may be only 50 cents. The maximum number of shares which a person may hold cannot exceed one-fifth of the total number of subscribed

<sup>1</sup> On July 7, 1940.

shares. Each share carries a guaranteed liability which cannot be more than twenty times the value of the shares. In May, 1940, the average ratio between the liability and the share for all societies was 8.2 : 1. All societies are continuously encouraged to reduce the maximum liability allowed in their constitution as rapidly as possible until a ratio of 2:1 is reached.

Each member has only one vote irrespective of the number of shares he holds. The General Meeting exercises supreme authority on behalf of the society. It is held atleast once a year. A Board of Directors and a Board of Supervisors are elected by the General Meeting every year. The posts on these Boards do not carry any remunerations. The Board of Directors conducts the business of the society efficiently in accordance with the business policy laid down at the General Meeting. The Board meets atleast once a month and may, if necessary, hire a general manager for the society, who may be one of the members of the two Boards but not the Chairman. The Board of Supervisors also meets atleast monthly and with the Board of Directors quarterly. It supervises the work of the Directors, audits the annual financial statements and furnishes a report thereon to the General Meeting. The General Meeting may even appoint an outside auditor. It also approves the election of new members where necessary.

It is insisted that every member should work with his hands in the workshop of the society. The salaries and the scales of wages for the members as well as for the non-members are fixed by the General Meeting and are to be kept as level as possible. Either the members work for wages or they manufacture goods themselves after receiving help from the society. In every case they are bound by agreement to

sell through the Society "all goods manufactured wholly or partly by them on the society's premises or with materials and equipment supplied by the society, excepting such goods as the society rejects or permits them to sell individually". In default they have to pay fines.

The division of profits at the end of the year is also decided by the General Meeting. To ascertain the annual surplus, deductions are first made from the trading profits for interest on loans of the society, depreciation, previous losses, contribution for the share transfer fund and a limited interest on share capital. The depreciation has to be atleast 20% on equipment and 10% on buildings. The share transfer fund has to be at least 5% of the paid up share-capital. The interest on the share capital is not to exceed 10% per annum or the prevailing rate for the current long-term loans : it is non-cumulative.

The net profit is divided as follows : (1) atleast 20% for the General Reserve Fund, (2) atleast 10% for a Common Good Fund, (3) 10% for the distribution of bonus to the Directors and the staff in accordance with the decision of the General Meeting, (4) 10% to be paid into a local Industrial Development Fund to be administered by a joint committee of the local Union and the local C. I. C. office,<sup>2</sup> and (5) the rest to be distributed among the member and the non-member workers in proportion to the wages earned by them from the society. In the case of the members two-fifth of the bonus is used up to increase the members' share capital. In the case of non-members over 18 years in age, they have to apply for membership within three months of the declaration of the bonus. If they do not apply, the

<sup>2</sup> It is generally used to establish a federation for supplies and/or the marketing of the C.I.C. products.

bonus is paid into the General Reserve Fund : if they are refused admission, two-fifth of the bonus is paid into the local industrial development fund.

The provision for level wages and bonus to the non-members<sup>3</sup> is meant for protection against any violation of co-operative principle of open membership. In its absence the danger would be that the co-operatives may limit the number of members to suit their monetary interest and may employ those persons who would remain non-member employees.

### Society's Objects

In general, the objects of the indusco have been threefold: (1) to help the resistance to the Japanese aggression by the production of the daily necessities of the militarists and the civilians, (2) to speed up national reconstruction by the establishment on a sound co-operative basis of small industries scattered throughout China and (3) to hasten the realisation of Dr. Sun Yat Sen's third principle, 'The People's Livelihood'. Dr. Sen's economic programme comprised of the socialisation of the means of communication, industry, mining and distribution, restriction of private capital to the improvement of social condition and to minor industries, and the equalisation of land ownership. In keeping with these objects a society may register for the following six functions : (1) Manufacture and sale, (2) Entering into contracts for labour, (3) Transport of passengers and goods, (4) Purchase of materials and equipment including land and buildings, (5) Obtaining of credits and (6) Right to federate with other industrial co-operatives.

<sup>3</sup> The non-member workers are generally seasonal labourers hired for short-time jobs such as erection of buildings, making subsidiary parts for the cooperative products etc.

### Induseco Structure

In order to carry out the plan the Chinese Industrial Co-operative Association was formed. This is sometimes referred to as the Central Headquarters and is situated at Chungking. The management is in the hands of a Board nominated by the International Committee which is responsible for all non-government and voluntary help. (The organisation for non-government support is shown on page two of the cover.) The Chairman is Dr. H. H. Kung, the head of the Ministry of Finance of the Chinese Government. The Association office has four departments *viz.*, (1) the Fieldwork Department incharge of the organisation of co-operatives, marketing and supplies, and engineering and inspection, (2) the Promotion Department responsible for publicity, education and coordination, (3) the Finance Department to look after audit and accounts and the granting of loans, and (4) the Secretariat Department to deal with business correspondence and compilation of statistics. Thus the headquarters obtain necessary funds, procure tools and machinery, register workers, train fieldsmen to organise co-operatives and to supervise and coordinate their work. It also takes decision in regard to policy. Loans are granted to the co-operatives for the purchase of tools, machinery and raw materials and for starting production. Long period loans, usually for five years, carry a six per cent. rate of interest and the short period loans, eight per cent. rate of interest.

Before a loan is granted, the regional headquarters concerned investigate into the object and the adequacy of the loan asked for. There are seven such headquarters under the Central Headquarters:—

1. Northwest Regional Headquarters.
2. Southwest Regional Headquarters.
3. Southeast Regional Headquarters.
4. West Regional Headquarters.
5. Yunnan Regional Headquarters.
6. Shansi Honan Guerilla Regional Headquarters.
7. Chekiang Anhwei Guerilla Regional Headquarters.

They supervise the organisation of Depots in the various provinces. A training school for the fieldsmen is maintained at each of the regional headquarters. The school includes a model co-operative unit. Technical training classes are also held. The technical schools of the Northwest and the Southeast Headquarters are called the Bailie Schools after Joseph Bailie who once arranged for the training of the Young Chinese in the Ford Factory at Detroit. The course runs for eighteen months including six months for training as apprentice in cooperatives. There is also a textile training school under the Northwest Headquarters since 1939. Three-fourth of the time is spent by the trainees in some cooperative. The subjects taught are weaving, dyeing, factory organisation, cooperative organisation and rural economics. Where possible, research and chemical laboratories are maintained for the analysis and estimate of mineral and agricultural products and for the preparation of the required chemicals from the raw materials available in the region. Such laboratories exist at the Northwest, Southeast and the West regional headquarters. Special attention is also paid to the training of women and children and to the organisation of women's cooperatives with a view to release men for the front.

### Depots

The regional headquarters promote cooperatives in different districts through Depots which numbered seventy in sixteen provinces in 1941. A depot is not what we usually understand by it, a place from which stores are drawn. Nor is it a cooperative depot, a store of raw cotton or a warehouse filled with goods made by cooperators waiting for despatch to the market. Instead, it is a spearpoint for promotion. The Depot Master, who is directly responsible to the regional headquarters, is to organise and supervise cooperatives. The C.I.C. staff are sent to the districts for organisation work through slogans, posters and mass meetings. They survey the needs and resources of the localities and invite the co-operation of the interested, the destitute and the needy workers. Having been satisfied of the bona-fides and the competence of the members, the staff draws up estimates of capital required, and after the contribution to the share capital has been made, negotiates for loans from Indusco funds or from the banks.

Another feature of the depots is that training is imparted to the cooperative members and the C.I.C. staff in the theory and practice of cooperation including cooperative organisation and management and simple cost accounting. Training is also imparted—specially to the women—in spinning and weaving, cross-stitching, embroidery and the like.

### Industrial Cooperatives

After the depots come the cooperatives. Their constitution has already been dealt with. Of the six functions for which they may register, the last three are invariably taken up by all, while of the first three they generally choose one. Units that take up 'manufacture and sale' are naturally the

largest in number. Such a cooperative may be organised for one of the following three purposes :—

1. Provision of credit.
2. Purchase of raw materials and sale of finished goods.
3. Obtaining credit and raw materials and collective marketing.

Production may be carried by the members in their homes or at the society's premises. The type of cooperative most common is the self-governing workshop which provides credit, raw materials, marketing facilities and the shop with equipments. This is most satisfactory to the workers, specially the refugees who have very little of their own. It is preferable for two more reasons. Firstly, since the goods are owned by the society, it does away with the difficulty of fixing prices of goods brought in by the members. Secondly, it facilitates standardisation and supervision. The members get their wages and at end of the year, a bonus in proportion to the wages earned.

### Cooperative Federations

In keeping with the sixth function of the Induscos, federations are formed by societies belonging to the same locality or industry. The tendency is for each federation to have a Marketing And Supply Agency for collective purchases and sales, for help to standardise goods and for linking up with similar agencies in other parts of the provinces. The Agency takes a commission on purchases and sales and is managed by a committee elected by its federation and the regional headquarters. The other functions undertaken by the federations can be understood by reference to the one at

Lanchow (Northwest Headquarters) which maintains a hostel and a restaurant with low rates. It publishes a biweekly newspaper. It undertakes health work in cooperation with the local public health authorities. It also imparts education in collaboration with the local C.I.C. administrator. It extends facilities for the investment of the reserve fund of the primary cooperative and has organised a savings agency to encourage cooperative members to invest in Government Savings Certificates. It is expected that the federations shall gradually take up finance, promotion, inspection, auditing and training. The hope is also entertained that the federations will lead to the formation of provincial federations and afterwards, a national federation of industrial cooperatives.

Another important feature of the cooperatives is the growing inter-linking among them. Thus a transport co-operative may be serving other cooperatives. A shoe co-operative may get its leather from the leather cooperative whose requirements of lime may be supplied by a third cooperative. The glass cooperative may be served by the soda-ash cooperative. The building cooperative may be purchasing from a lime coop., a tiles coop. and a lumber coop. This promotes a feeling of unity and also helps the coops to progress.

The cooperatives also undertake social services by opening schools for children, night classes for adults, clubs and even hospitals.

### **Growth and Progress of Induscos**

Historically viewed, the first Indusco was started in Paochi, a tiny village in Shensi Province which is rich in natural and mineral resources. Here is how it came about :

"So at the end of the summer Lu journeyed through Hankow and Sian to Paochi, at the terminous of the Lunhai Railway. At that time it was a little mushroom town that was being invaded by thousands of refugees who poured off the train every day. It was dirty, noisy and pest-ridden. Ninety per cent of the population were living in mud and straw shacks or caves hastily hollowed out of the hillsides....The town and country for miles around were teeming with half starved humanity and it was every man for himself in a rock-bottom primitively competitive struggle for existence. Lu went round the colonies of refugees searching for would be cooperators. First he approached a group of blacksmiths. They were urged to join forces, to pool their work and their marketing, their raw materials and equipment and to live together. They were told that if they would do this, they would be given capital to build and expand their business. They were interested but intensely suspicious. This was just another person come to cheat them. They would be robbed and squeezed by the person professing to help them. Better go on in old way as best as they could and take no risks. "But at last"

nine illiterate blacksmiths with a small capital of \$140 and tools worth \$36 formed a cooperative. The government had advanced \$1200. This was returned within fourteen months and is a proof of the rapid progress being made by the Indusco from the very beginning. It also showed that there was vast scope for progress.

However, after the foundry, thirty stocking knitters from Honan set up machines that they had carried with them through the lines. Next came a soap and candle cooperative

of twelve members. The fourth was a printing coop. Within a year the number of cooperatives reached the 1000 mark. By the middle of 1940 there were 1780 coops with a membership of about 22.7 thousands, a working capital of 5½ million dollars and a monthly production of nearly nine million dollars. Hardly another year had gone by, when the societies numbered 22,33<sup>5</sup> with 32,500 members, and had a working capital of ten million dollars and a monthly business of about twenty million dollars. The share capital was estimated to be a million dollars and the net worth of the members' proprietorship in the C.I.C. as a whole, about four million dollars. The approximate figures given out by the C.I.C. statistician, Mr. Ralph Lapwood, in July, 1941, showed that the number of the coops had gone down to 2,000. By June, 1942, the number had fallen to 1,731 and by 1943 to 1350<sup>6</sup> this has been explained as being due to consolidation. The contention is supported by the fact that the working capital has increased to 25 million dollars with an equal value for monthly production.\* The members' property in the C.I.C. stood at twelve million dollars. In the face of

<sup>5</sup> The number includes societies not recognised by the Central C.I.C. Office. The distribution of the societies and their membership were as follows:—

Headquarters	Number of societies	Number of members
North-west	625	9,300
South-east	600	8,200
South-west	211	3,500
West	488	6,000
Yunan	156	1,500
Shansi-Honan	130	3,200
Chekiang Anhwei	23	800

<sup>6</sup> Vide, International Labour Review, March 1944.

\* At the end of 1944 the monthly production is reported to be about 75 million Chinese dollars, but this is not a correct measure of the quantum of production due to rising prices.

changing frontier it is not possible to analyse the state of affairs in the guerilla zones. A comparison of the number of coops in the other five headquarters for 1940 and 1942 shows that the cooperatives have increased in the Southwest and the Yunnan regions. In the other three regions the number of the cooperatives has decreased :—

	<i>Headquarters</i>	<i>Northwest</i>	<i>Southeast</i>	<i>Southwest</i>	<i>West</i>	<i>Yunnan</i>
1940		625	450	232	390	106
1942		325 (?)	433	246	247	158

Figures are not available for the membership in these regions separately. However, according to Mr. Lapwood's estimate for 1941, the total membership of the Induscos for the whole of China was 30,000 and the figure revealed by the Board of Directors in June, 1942, showed it to be only 25,000. There has been a slight decrease in the average membership from 14.6 in 1941 to 14.4 in 1942. The membership per cooperative which it was originally hoped to attain was thirty-five which seems to be a distant goal. The number of seasonal non-member workers has however increased from about three lakhs in 1941 to half a million in 1942.

In 1939 Indusco production covered over fifty trades. Today the number is over one hundred and twenty. The goods include such varied articles as munitions, tin hats, uniforms, boots, Sam Brown belts, alcohol, articles of hygienic value such as soap, antiseptics and simple medicines, and blankets for the army. Among the articles produced for the civil population may be enumerated textiles, umbrellas, tooth paste, matches, candle, soaps, leather goods including shoes, paper, buttons, dry cells, tung oil, peanut oil, sugar, lime and boats. They are also manufacturing printing presses,

coal gas motors, textile looms, improved water-wheels, 20-30%-more-efficient spinning wheels and carding machines, chemical burners, cast iron wheels, machine tools and potteries. Natural dyes are being discovered and developed. Mining is carried on for coal, iron and gold resources. Gold is also recovered by the washing process. Where possible, water-power is produced. Efforts are continuously made to improve the ancient hand-worked machinery with a view to increase their efficiency.

In the guerilla regions the cooperatives try to use up raw materials which would otherwise fall into Japanese hands, and even attract raw materials from across the enemy lines. The attempt is made to set up an alternative source of supply to compete with the Jap controlled industrial products. Among the commodities produced may be specially mentioned shoes and blankets.

As a digression, it may be mentioned that one of the function of these guerilla coops is to maintain a "plain clothes" system of production even across the lines so that no time need be lost in restarting industrial cooperative work on a suitable scale as soon as the lost territory is recovered. In the lost Shansi area certain cooperatives working behind the blockade lines have elected two of their members to act as directors for the group. Dressed as harmless merchants, who have no other care in the world, than to sell more Japanese toothpaste and soap, these men got the round of undercover cooperatives and help them with their work. They also arrange to send messages to the Headquarters on the other side of the lines.

Some of the industries carried on in different regions which are worth mention are as follows :—

*Shansi* : Alcohol from kaoliang, potatoes, grain and corn to be used for trucks and automobiles ; coal-mining ; chemicals ; machines ; woolspinning ; processing of the biproducts of coal-tar.

*Kansus* : Cotton and wool materials ; fur-factory.

*Hunnan* : Textiles ; chemicals ; coal and iron-mining ; glass lamps ; leather boots.

*Kiangsi* : Iron ; timber ; oils ; hides ; boats.

*Fukien* : Paper-making.

*Kwangtung* : Paper-making ; tung-oil ; peanut-oil ; pottery.

*Szechwan* : Spinning wheels ; natural dyes : blankets and general wool-weaving ; coal-mining.

The cooperatives may be roughly grouped as follows :

(Percentage)

Type of society	1942-43	Target
Textiles	37	35
Chemicals	20	22
Mining	7	22
Foodstuff	6	18.5
Potteries	5	
Building	6	
Paper-making	2.7	
Metalworks	3.6	
Tailoring	10	
Miscellaneous (including transport)	2.7	2.5

It will be seen that with the exception of textiles and chemicals the target has not been reached. It is opined that greater attention should be paid to increase the mining of

raw materials and the production of foodgrains and vegetables.

### **Finance**

Funds have been provided by the State, the banks and through donations. The State provided 11 million dollars by the spring of 1941 and in addition a monthly subsidy of 50,000 dollars, which was later raised to 1,00,000 dollars, for administrative and promotional work. That this could not be much would be realised from the facts that the purchasing power of the dollar had fallen to less than one-third during 1939-41 and that over 50% of the State capital grant was received during 1941. The capital provided by the banks, among which the Central Bank and the Bank of China deserve special mention, amounted to 25 million dollars by 1941. Since then the banks have hesitated to extend credit to the cooperative. They should be made to realise what the far-seeing bankers already do that the best investment in China is in small decentralised industries. As to the funds that have flowed in from the foreign countries in the form of donations they totalled 1.2 million dollars by 1941. These have been spent in making purchases of equipment, and material for promoting education. The funds are handled by the International Committee for the C.I.C. Productive Relief Fund with the help of various Promotion Committees formed in China, Australia, America and England. The funds have proved to be insufficient and there has continued to be the need for foreign loans.

Before the end of the fourth year of the Chinese Indusco Movement, the necessity was felt for a new system of co-operative financing and accounting. In 1941 the Northwest Headquarters established a Federation Treasury with a capital of 1.5 lakh dollars, of which one-third was provided

by the International Committee and the rest by the banks. The Treasury is managed by an Executive Committee of seven and a Supervisory Committee of three. "According to the Chinese law, membership on these committees runs according to shares. So long as the share capital paid up by the coops themselves remains below NC \$20,000, they shall not have less than one representative as member of each committee. With each NC \$10,000 additional share capital they shall have one additional representative on one or other—but not on both—committee." The functions of the Treasury are :—

1. To centralise all loans to coops, acting as a central body through which all outside investors may deal.
2. To provide running capital by issuing loans against cooperative products or warehouse receipts with a view to ensure a steady flow of goods and raw materials.
3. To stimulate saving and thrift on the part of co-operative members, thus giving added stability to the movement.
4. To bring about a closer financial relation between the C.I.C. and the scattered individual coops, and to provide an efficient and universal system of accounts and audits. (A team of expert accountants are maintained who are available to the coops for a charge proportional to the work entailed. Several coops can thus have one accountant. This ensures accurate accounts and facilitates the organisation of coops for refugees and workers. Also the credit granting authority is in touch with the business standing of the coops, their extent of production

and their proportion of output sold through the marketing agency. Auditing too is done for a recognised fee at regular intervals.)

5. To provide a collection and remittance service.
6. To provide insurance on coop. property against war and fire losses. The monthly rates are fixed from a standard base of fifty cents per hundred dollars increasing to 80 cents for (1) destructible or inflammable goods, (2) non-fireproof buildings, (3) city locations and (4) proximity to military objectives.

There has also been opened in Paochi a Joint Coop Warehouse which acts as a link between the Treasury and the Supply and Marketing Agency. The staff consists of one representative of each of the Federation, the Treasury, the Agency and the C.I.C. Depot Office. The coops are to send their goods, not to the Marketing Agency but to the Warehouse where they are priced and checked for flaws. The flaws are reported to the coops which remove them. The arrangement does away with (1) the uncertainty on the part of the coops whether their goods would be accepted i.e. they know that the goods shall be accepted unless faulty and (2) the possibility of the Agency receiving stocks of unsaleable goods. The warehouse receipts are acceptable as security for short-term loans by the Treasury.

As the C.I.C. movement is in the phase of consolidation, better control and more statistical and business data are essential. Since all cooperative activities from the granting of loans to the sale of products passes through the trio—the Treasury, the Warehouse, and the Supply and Marketing Agency, a tighter control is possible. It also ensures the collection of proper statistics and business data.

## Social Welfare Activities

Before passing to the difficulties and the needs of the Indusco movement, mention may be made of the fact that social welfare is an essential part of the Induscos. They know that production is not all that matters. In the words of an Indusco leader, Mr. Rewi Alley, production should be carried "under conditions that do not lead to slave labour". Slowly but surely there are coming into existence medical and health services, nurseries, schools and training courses, and facilities for general enlightenment through books, papers, lectures and classes. Three items deserves rather a detailed treatment : Medical and Health Services, Educational Programme and Women's Work Department.

### Medical And Health Services

The medical and health services have been organised mostly with a view to preserve the health of those who join the movement. There are hospitals, many of which are provided with beds, among whom may be mentioned those at Chengtu, Paochi, Hanchung, Lanchow and Shwangshihpu. The doctors, nurses and the dispensary workers visit the coops periodically. All members are given medical aid including inoculation against seasonal diseases free of charge. In the war ridden areas, people suffer most from the typhoid, influenza and remittant fever. In an interior region like Lanchow, members were found to be victims of tooth trouble, eye trouble including trachoma, and diseases of Penis to a great extent. Where possible, full cooperation of the State Health Bureaus is available. Attention is being paid to the treatment of the non-members as well. As far back as 1941 it had been decided to establish a Northern Front Health Service Headquarters to cover the regions of South Shansi,

South Hopei, Southeast Shantung, Honan and Northern Hupeh. The annual establishment for a doctor, three trained nurses and five apprentices was about Rs. 5000.

Speaking highly of the Federation Hospital at Paochi, Dr. Carpenter (J.H.), an American, wrote :

*"The whole place is most neat and clean. I slept in one of the rooms overnight and would be almost happy to be sick there."*

*Thus this whole medical service and the continued inspection of cooperative sanitary conditions is most unique and effective. It is being spread to outlying villages and other centres as fast as money is available. All large cooperatives and centres have emergency equipment and medicines."*

This is most welcome at a time when malnutrition<sup>7</sup> and lack of medical attention is said to be undermining the people's power of resistance against diseases.

### Educational Programme

The leaders of the Indusco movement are also fully aware of the tremendous importance of educational work in the whole C.I.C. programme. From the very beginning Organisers' Training class, Technical Training class, technical courses in spinning for the women, biweekly courses in cooperative principles for all cooperative members, eight days' cooperative leaders' training class for representatives from the cooperative societies and staff members' training courses

<sup>7</sup> To a great extent this is due to steep rise in prices. Between July, 1940, to September, 1941, the price of rice rose by more than 600% from NC\$ 50 per 26 catties (1 catty is equal to 1½ lbs.). There were similar increases in the case of flour, salt and fuel.

are becoming regular features of the induscos. There are primary schools and literary classes for the children, night schools for the workers and literary classes for the women. There is a widespread group effort at self-education in the C.I.C. Offices. At some centres there are two language classes, one in English and the other in Russian. Four times a week classes are held for the office servants. Summer camps are organised for the primary school teachers where educational methods and specific problems are discussed by the teachers in conference with the older members of the staff. In certain areas model villages are maintained for the war refugees, who are first trained in, say, weaving socks, producing shoes, manufacturing cigarettes etc. before they are organised into cooperative societies.

Efforts are continuously made to discover better methods of training new members. Thus persons to be admitted to wool weaving cooperatives under the Chengtu Depot learn the art of weaving from the older and skilled members of the respective cooperatives, while cooperative education is imparted to them at the Depot. With a view to consolidate the movement, the prospective members are required to have a knowledge of the rudiments of education. At Chengtu they have to make a deposit of a hundred Chinese dollars which, after the members qualify for admission, is credited as their initial paid-up share capital.

The depots and the regional headquarters are also encouraged to undertake educational activities. An Educational Institute has been started in the West Szechuan. It has three departments, viz., Industrial, Business and Economic, and Cooperative and Training, and a Bureau for the publication of the C.I.C. literature. The Industrial Department has experts in textile and chemical industry, mecha-

nical engineering and metallurgy, who make a study of the comparative cost of production, labour efficiency, types of equipment and methods of production. The second department collects data on markets and related subjects on behalf of the marketing agencies, improves accounting methods, promotes an auditing service and gives training in business methods. The third department is concerned with the methods of teaching the members, managers and experts of the societies and with the higher training of the C.I.C. staff. It is also to open demonstration and practice centres for its work. The Bureau is to publish bulletins of technical improvements and new methods, an educational monthly and text books including a Manual for the guidance of the C.I.C. staff. The Director of the Institute is responsible to a Council which determines the policy and advises the C.I.C. as a whole. It is to establish cooperative relations with the existing educational and technical bodies of whom the University of Nanking and the war-time University at Chengtu deserve special mention.

### **Women's Work Department**

With a view to build up an educational basis for co-operative principles, and the cooperative way of living and to break the barriers to woman's equal place in society through education and economic development a Women's Work Department was started in April, 1939, in the Northwest Headquarters under encouragement and a loan of NCS 20,000 from Madame Chiang Kaishek. Classes were at first organised to teach the children to read and write and they enabled the teachers to visit their homes and gain the confidence of their mothers. Similar classes for the women soon followed. From this, organisation of women for spinning wool and cotton in their homes was an easy step. With-

in a year there were 6500 spinners and 420 tons of woollen yarn were spun. Cotton yarn was also produced substantially. Technical training classes were next started to make native and refugee women expert cotton spinners. Women and disabled soldiers were trained for new cotton spinning machines and also about the use of both hand-looms and power-looms. During 1940-41 the women's literary classes and spinning groups grew into women's clubs. "Bringing in their yarn and waiting to be issued with fresh raw material, the women found the clubs a convenient common meeting place where they could rest, attend classes, write letters and consult the free medical and legal advisers who are always in attendance." As such 25,000 members spun 820 tons of woollen yarn and more than one ton of cotton yarn during 1940-41. Since then cooperatives have been formed for the native and refugee women. Nurseries and kindergartens have been established to provide the children with scientific upbringing, nourishment and care, and to leave the mothers free to work. The Department has also established cooperative for disabled soldiers including Japanese prisoners and taught them easy crafts with which to add to their income and keep up their morale. Although every effort is made by the Department to meet the expenses itself, it must be mentioned that financial help has been received from friends in the Phillipines, America, England and China. NCS 50,000 were received in 1940 and about five times that figure in 1941.

### Problems And Needs

So far as the unit societies are concerned, apart from improper accounts due to the shortage of persons with the knowledge of accounting, and lack of managerial ability in the directors, the most important difficulty is due to the

*Laopan* system of the old. In the small industries of China the *laopan* (i.e. master) was the owner and director. Therefore in the cooperatives, the manager, who has ever before been *laopan* thinks the business to be his own. He as also the other members find it very difficult to understand the difference between the functions of the Chairman and the Manager. Also, having known that they have equal rights with all other members, they assume that none—not even the manager—can boss them. With the passage of time and further development, these difficulties will become less troublesome. A growing problem has been the opposition from local groups which have wanted to take over the co-operatives work for their own ends or to break them up. This calls for greater care and the imbibing of the true cooperative spirit to make the units most stable and the least vulnerable.

The greatest problem is that of *rbendi-wenti* i.e. of fitting people into places where they can fare best and of encouraging them to cooperate and carry on with the persons around them, no matter how much they personally dislike them on account of individual habits or the difference in the training received. At the same time it has been felt that most of the cooperative initiative has come from the top and that in order to give the regions greater autonomy, there should be more decentralisation of administration. This was emphasized even in the Chengtu Memorandum prepared by the Chengtu Promotion Committee.

There has also been felt the shortage of machinery. True, cooperatives for the construction of hand-machines and other secondary machines are being developed, import of machines and materials from the foreign countries has been essential. For this purpose an Anglo-Chinese Development Society

Limited formed on cooperative lines has been in existence in England for some years. The Chinese Government also guarantees the discharge of obligations for trading transactions carried with its approval. The various Promotion Committees also help the movement in this respect. Still the problem remains.

At the same time there has been lack of capital. Mr. J. H. Carpenter of the American committee of the C.I.C. reported that in one place only 8 out of 22 and in another place only 10 out of 18 looms were found working by him because cash was not available to finance the working of other looms. In spite of the C.I.C. effort to save their own money and reserve, rising prices lead to under-employment of men and material. Incidentally, it also leads to the misuse of material and machines by those in charge of them. After all the temptation to sell a commodity at many times its original price and pocket the money is very great. The movement today needs more government loan, growing funds from abroad (e.g., U.S.A. and U.K.) and better distribution of funds by the Central Headquarters.

### Of Central Headquarters

Viewed from the point of armed and economic resistance, it has been essential, that production in the front line areas, where the objective conditions are also more favourable for cooperative methods, should be increased. The Headquarters and the State, both are paying attention to this. In order to increase the efficiency of production, tools and machines have to be standardised in such a way that they may be adaptable to local conditions. This calls for greater research and scientific investigation, and as appeared from the report of Mr. J. H. Carpenter, there has been the necessity for bringing experts in paper, iron-smelting, textile engi-

neering etc. from outside. Also, it is advisable that the state should make industrial research as public as agricultural research. The work of the Educational Institute, the Bailie Schools and training courses needs expansion in proper relationship and under proper control, for which education and training experts must be appointed.

Efforts are already being made to improve the technique of production in the case of such industries (e.g., textiles, tanneries, paper-making, alcohol-making etc.) as shall be required even during peacetime.<sup>8</sup> It has been realised that if steps are not taken to rationalise production, the industcos will receive a great setback after the cessation of hostilities when factors like transport difficulties, demand from the interior and the artificial high tariffs shall disappear. Also that if the industcos are to continue to play an important part in the economic structure of China even after the war, they ought to be placed on a sound and promising basis through reorganisation and amalgamation. This process has also already begun. There has not been any rapid increase in units, but the membership, the share-capital and the monthly output continues to increase. Apart from such consolidation, stability also demands that efforts should be made to develop all round personalities and to foster a spirit of fellow-

<sup>8</sup> At the annual meeting of the Board of Directors held in October 1943 a plan of future work was adopted. Among other things it contemplated expansion of cotton and woollen textiles, tanning, canning and small machine tool industries in the North-west, and the expansion of the silk, hemp and tanning industries in the South. It also stood for extension or cooperatives for the rehabilitation of the former servicemen. Under it rural reconstruction activities were to be extended through the establishment of agricultural processing industries as also of handicrafts and light industries designed to provide employment for the cultivator during the off-season period. (International Labour Review, March 1944).

ship. Prof. J. B. Tayler, the adviser to the C.I.E., has therefore rightly emphasized programmes of popular education, recreation centres, schools and nurseries for the children of the workers, technical training for pre-vocational young people, evening classes for promoting fuller understanding of democratic methods etc.

Lastly, it is true that the Chinese Government has provided capital advances, general promotion, expert guidance and markets for the Indusco goods through government purchase. With greater dependence on the State, the movement tends to get integrated with the national administration. Although theoretically Dr. Sun Yat Sen's principle, that industry and government should be based democratically upon the people, is followed, there have been arrests and interference by others. In some official groups there is evident a tendency to look upon the movement as a method of meeting the refugees and surplus labour problems. While the help given by the State should continue till the induscos stand on their own legs, it is essential that in the interest of the movement and the country the institutional independence must be preserved. It is gratifying to note that the C.I.C. leaders are trying their best to retain it.\*

### The C. I. C. Leaders

The growth of the Indusco Movement has been possible due to the cooperation, from the very beginning, of Chinese leaders and experts, and some foreign service-spirited experts. Among the Chinese, mention must be made of Madame Sun

\* Recently Dr. Chen Hap Seng, who is the Secretary of the International Committee of the C.I.C. expressed the view that the movement is declining on account of undue government interference and inflation.

Yat Sen, General Chiang Kai-Shek, Madame Chiang Kai-Shek (who has devoted thousands of dollars of her personal earnings for the growth of the cooperatives and the organisation of women. Dr. H. H. Kung who is the President of the Executive Yuan and intimately connected with the Central Bank, Mr. T. V. Sung who is Director of the Bank of China, Mr. K. P. Liu, Mr. Hubert Liang, Mr. K. M. Lu, Mr. F. Y. Lem and Miss Ida Pruitt. Among the foreigners must be mentioned Dr. Bailie, Mr. Campbell, Prof. J. B. Tayler who went to China as a teacher of science but changed over to Economics and Cooperation and has acted as adviser to the C.I.C., Dr. Lewis Smythe (an American expert in cooperative organisation with the Nanking University who has done valuable work on the use of water wheels in Fukien, on the improvement of carding and spinning machines including certain Indian models and on improved methods of leather production) and Rewi Alley, the New Zealander who is the chief Technical Advisor to the C.I.C. and but for whom the Indusco Movement would not have had technical help which is essential for the successful start of industrial cooperation.

Contrary to the orthodox policy of cooperation to "go slow lest you commit a mistake and discredit the whole movement," the leaders have carried the movement forward at a rapid rate. Thereby they have risked failure but it is justified because otherwise what would be left after the war would not be sufficiently big, strong and widespread to form the basis of a strong and independent cooperative movement. Though the results have not been as great as was expected, it has laid bare the tremendous potentialities of that vast country. Given proper encouragement and support, it stands the best chance of becoming one of the most important and

significant movements that the world has ever seen. Incidentally it is not correct to hold the view that the Act for the Planned Development of the Local Cooperatives, which provides for the establishment of multi-function societies, may check the C.I.C. movement. The C.I.C. units undertake credit, production and marketing and are therefore multi-function in nature. Consequently the movement is not likely to be adversely affected by the new Act. But what may affect it are the post-war foreign competition and foreign grip over China and the intensity of the use 'use swadeshi' feeling.

### Indusco and India

In conclusion, I cannot resist the temptation of referring, though very briefly, to industrial cooperation in India, which has also been an agricultural country backward in industries. India was also in the throes of the war: so far as war-time scarcities are concerned, virtually it still is. There has been tremendous scope for organising producer societies to supply the requirements of the civil population. In fact, producer cooperatives have been the need of the hour ever since the beginning of our cooperative movement. But little has been done. If any attempt worth the mention has been made during World War II, it was in U.P., Madras, and Bombay; but it was only to meet the requirements of the defence and supply departments. Thus in U.P., industrial cooperatives supplied camouflage nets, tat patties, sola hats, water-bottle-carriers, socks, gauge-cloth etc. These societies are not new ones: mostly the old ones were mobilised for war production. The civil demand has been practically left untouched. •

Of late there has been some discussion about the organisation of industrial cooperatives with a view to help

improvement in the standard of living. The Registrars' Conference (1944) recommended the appointment of a committee to draw up a programme of industrial development by cooperatives and to consider the advisability of protecting and defining markets in which induscos can operate. The State can even make military transport vehicles available to the cooperatives and thus help them escape the transport problem faced by the Chinese indusco. Priority may also be given to cooperatives for the acquisition of such surplus war material as may be useful to them. Promotion committees on the lines of those in China are required. It is gratifying to mention that an Indian Industrial Cooperatives Association was formed in 1944. Its Organising Committee is doing excellent promotional work. Advantage may be taken of the experience gained during the successful experiment made with nine district industrial associations in the Bombay. State patronage shall also be necessary.

## *CHAPTER THREE*

### COOPERATION IN JAPAN

Peculiarly situated as Japan is, Nature herself seems to drive the Japs to combine in order to fight the elements. Dams and dikes have been constructed cooperatively. Collective labour has been imperative due to the system of irrigation required for the cultivation of rice. Fishery too has demanded of the Japs cooperation in the use of boats and nets in common. These have led to and account for the numerous irrigation, buildings, production and marketing societies. Even in the field of finance we can trace the origin of the coops to a sufficiently ancient system of the people's finance known as the 'Ko' or 'Mujin' which later appeared in a more perfected state in the form of the 'Hotokusha'.

#### *Ko or Mujin*

A Ko or Mujin is a society generally organised by the friends of a needy<sup>1</sup> person to help him. A number of persons agree to subscribe a certain sum monthly and to divide the proceeds (monthly) by ballot. The first month's collection is however given to the person to succour whom the Ko is formed. But all Ko's do not strictly come up to the above description. As a variety, the beneficiary may not pay subscriptions after the first but may only perform the

<sup>1</sup> The need may arise for purposes of pilgrimage, repair of temple, domestic use and the like.

business of the Ko till it ceases to exists. Alternatively, he may pay subsequent subscriptions at reduced rates.

The deviation from the ideal society does not end here. The division of subsequent monthly collections may not be by ballot but by bidding. The needy members bid to give up a certain amount if the collection of the month is handed to them. Even where the division is by ballot, some needy member may offer to forego a portion of the proceeds if the prizeman can sacrifice his claim in his favour. The sacrificed amount—strictly speaking it can be called the discount paid by the needy—is, after deducting the expenses of the meeting, partly divided among the remaining members, partly awarded as prizes to the runners-up and partly divided among the members by draw. In some Mujins the prizeman was absolved from paying the future subscriptions. In criticism, it may be said that the Mujin did not necessarily and adequately help the needy except the first beneficiary. In the cases of bidding, the rich members could wait till the end and thus get a greater share at the cost of the poorer members. Also, the speculative nature of the society brought ruin to many a poor.

The early Mujins, which are said to date back to the tenth and the eleventh century were not speculative. They were not infested with the speculative element till the beginning of the seventeenth century. And it was not before 1868 that they appeared to be free from this undesirable feature. There was a relapse during the years 1877 and 1896. Thereafter strict Government supervision and inspection cleared the field of the shady Mujins. In 1901 the societies took the form of companies which undertook the responsibility for losses due to defaulters : but the proceeds were distributed to the members by bidding and by drawing alternately. The

amount went to the fortunate member as an advance against immovable property as a security. The company charged a fixed commission. At the termination of the company the balances left were distributed among the members. These Mujin Companies came to be infested by shady persons and ex-convicts who could abscond at the first opportunity with the funds of the concern. The law relating to Mujin business, which was passed in 1915, once again put the Mujins on a sound foundation.

Today a Mujin—sometimes called a mutual mujin—may be started to raise capital for (1) business or private expenditure (including the need for repayment of old debts), (2) public purposes such as repair of schools, temples, roads or help to charitable institutions, (3) furthering thrift or (4) to help purchase of houses etc. It need not necessarily have a first beneficiary and has a limited life<sup>2</sup> varying from ten months to fifty years depending on the membership and the frequency with which the meetings are held. The membership<sup>3</sup> may be anywhere between ten and five hundred. The subscription unit<sup>4</sup> (which is of the nature of a share) may value from ten Sen to one hundred Yen. Payment by instalment is allowed in the case of high value shares. Two or more persons can collectively own a share : also one person can have more than one share. The subscription may be paid in cash, kind or labour. So too the advances, though generally made in cash, may be in kind. Security in the form of personal guarantees or mortgage of real property is required for the advance. There is no law to protect the

<sup>2</sup> Generally it is about three to six years.

<sup>3</sup> In general the number of members per Mujin is about 30 to 50.

<sup>4</sup> In a majority of cases the value of shares is between 5 to 30 Yen.

Mujin and much depends on the good faith of the members.

In the Mujin Company—also called the Business Mujin—the members have dealings with the promoter of the company alone : the promoter draws a profit out of it. The law limits the life of the Company to five years. The loss due to defaulters is guaranteed by the concern. The law provides for the prosecution of the defaulting members. These thrive in the cities and towns.

Compared with the modern credit societies, the working of the Mujins<sup>5</sup> is easily understood by and appeals to the uneducated, all members are entitled to advances and the repayment is effected through easy instalments. But the interest works out at about 20% as against 8—12% in the credit societies. The members are limited in number, the life of the Mujin itself is limited without any fluidity and the working is isolated. There are no federations or unions. The subscription and hence the advances are small. The Mujin has little legal protection and much depends on the faith of the members. The needy are not assured of funds and where bidding is in vogue they virtually have a high rate of interest. Where bidding after drawing is practised, it is the richer members who profit at the cost of the poorer members.

### The Hotokushas

The Mujins do not come as near the credit societies as the Hotokushas. The father of the Hotokusha Movement was Ninomiya Sontoku (1787-1856) whose principles were (1) Sincerity, (2) Industry, 3) Living according to one's station in life and (4) Helping one's neighbour. He also stressed strict observance of filial piety and religious rites.

<sup>5</sup> Their number was about one million even in 1937.

During his life time he rehabilitated more than one impoverished estate. It was always a one man's effort who won the cooperation of others. It was in 1843 when the disciples of Sontoku injected the Mujin system with his teaching by forming the first Hotokusha at Shimodate, which granted loans to members by majority vote, the poorest applicant being given a preference. The loan was repayable in seven annual instalments.

Today a Hotokusha is not to be a religious or political organisation and is not to admit persons who are against or who have beliefs opposed to the constitution of the country. In general the society aims at furthering the work of "returning good for good" according to the tradition left by Sontoku : in other words, to enable the members to elevate the character and to promote the prosperity of their household, village and country. Therefore the members are required (1) to strive to give a return—through virtue and good deeds—to parents, ancestors, emperor and God, (2) to practise diligence and thrift and to limit their expenditure in order "to gather wealth and prosperity" and (3) to sow seeds of goodness.

The society itself is required to undertake the following functions :—

1. Public service e.g., *cultivation of national character and public spirit, elucidation of the national constitution and assistance in the paying of taxes.*
2. Educational work e.g., *cultivation of respect for age, religious rites and morality, raising of habits and customs, praise for good conduct and dissemination of knowledge.*

3. Economic work e.g., increase of production, regulation of expenditure, thrift, financing, marketing, purchase of seeds, plants, implements and necessaries of life, establishment of warehouses, utilisation of waste products and various types of cooperative work.
4. Social work e.g., investigation regarding problems affecting clothing, food and housing, observance of ceremonies as 'coming of age', marriage, funeral etc., help in cases of distress and accident, establishment of libraries and public halls, sanitation, and improvement of the means of communication and irrigation.

There are no shares and dividends, and though it is not made explicit, the liability is limited. However, the members have to make contributions regularly. The contributions go into what is called the Hotoku-kin, which is made up of two funds viz., the Dodai-kin and the Zenshu-kin.

The Dodai-kin is like the Foundation Fund of the Raiffeisen society : it is indivisible and no member can lay claim to it individually. Every Hotokusha which is started gets a contribution from the Federation of Hotokushas which has to be refunded to the Federation when the society is dissolved. Hence the Dodai-kin is not to fall below this amount. To the Dodai-kin are also credited the compulsory contributions of the members, voluntary contribution by others, and various profits and income.<sup>6</sup> Though the fund is indivisible, it is used as an ordinary reserve fund also. From it are also

<sup>6</sup> It is made up of interest on loans, (amounts received by way of) 'thanks-offering' and revenue from the property of the society, minus the interest on Zenshu-kin amount and other deposits and the working expenses.

met expenditure on charitable, social, educational and propaganda work.

On the other hand the Zenshu-kin is a deposit fund formed from the compulsory contribution by members on enrolment and further voluntary contributions which they may make. The deposits<sup>7</sup> bear interest and when it reaches a certain figure (usually 100 Yen), half of it is paid back. The other half is retained by the society but it is counted in the further amounts contributed as also for interest. The interest accruing on the deposits is paid to the members regularly.

To bring themselves in line with the cooperative credit societies, and to supplement the funds for giving loans, the Hotokushas accept savings' deposits from the members. It may also borrow funds from an outside agency. The amount left after giving loans to members is used to make investments in various negotiable instruments, deposits in outside concerns (including the commercial banks) and other investments.

Loans are granted at fixed rates of interest (usually 6-8% per annum) and are repayable either on a certain date or in instalments. The period for which they are granted is five to ten years for long term loans, and two years for short term loans. In the case of persons who are in distress or extremely poor, the loan may be granted without interest. Praise-loans (*Shoyo-gashi*) without interest may be given to persons who are voted by all members to be worthy of special encouragement. The borrowers have to offer security

<sup>7</sup> For every deposit of ten yens a certificate call Eian-shoken (meaning ever-secure) is issued. It can neither be sold nor offered as a security for loans. It is not transferable except to the heir of the holder. The certificate is called 'ever-secure' because its benefit always accrues to somebody.

either in the form of securities or land, negotiable instruments etc.

The uses to which the loans may be put are laid down. They are repayment of old debts, breaking up of barren lands, purchase of agricultural requirements, reorganisation of household economy, provision of capital for business pursuits and even for private expenditure.<sup>8</sup>

The constitution and management of the Hotokusha is governed by the Mimpo (Civil Code Laws, 1900). It can be formed by five members. In general, they may vary from six to fifty, though on an average there are forty members to a society. The members have to contribute to the Dodai-kin and must have at least a share in the Zenshu-kin. For purposes of management, the members elect, by ballot, a president, two vice-presidents, some Bemmu (directors)<sup>9</sup> and three auditors from among themselves. The term of office for the auditors may be up to two years and for others four years. The president and the vice-presidents are responsible for spiritual propaganda and financial affairs.

The Bemmu elect from among themselves a committee to conduct the daily business of the society. The committee may employ wholetime clerks but the emphasis is on having voluntary workers. There may be a Propaganda Committee with which may be associated non-members as honorary teachers and lecturers.

A general meeting is held once a year to receive the annual report and pass the budget for the next session. Vot-

<sup>8</sup> This is not the practice among the cooperative credit societies.

<sup>9</sup> The Bemmu-ship is generally awarded to all members who deserve the distinction on account of their unselfish and public-spirited work.

ing is allowed by personal presence or by proxy but not through the agency of non-members.<sup>10</sup>

A society is generally formed for sixty years and in no case for less than ten years. The giving of credit does not form an important place in the programme of the society. Not a few confine themselves to lectures and propaganda regarding the movement and to the encouragement of social and educational work.

Above the societies there is a Federation which is founded on nearly the same lines as the societies. The membership extends to the unit societies, and to individuals under certain conditions. If in a region there are less than four persons who want to form a society, they are allowed to become members of the Federation so long as a society is not formed, provided they pay an entrance fee and a contribution to the Dodai-kin and the Zenshu-kin. The societies too have to contribute regularly to the Dodai-kin and have a minimum share in the Zenshu-kin—in both cases in proportion to the number of members. The society is represented on the Federation by the president of the society. The Federation exercises supervision and control—both financial and advisory—over the societies, gives initial financial help and sends its officials and lecturers to the societies for giving advice and necessary guidance.

There are many Federations of Hotokushas and the need of the hour is a central federation of federations. It should hold annual congresses to review, and propagate information about the movement, as also to arrange proper education and training of the future staff.

<sup>10</sup> Cf. Raiffeisen Societies where proxy-voting is not allowed.

It is time that the old methods must be changed to suit the new generation. There has been too much of moral element in the working of the societies. The wise enthusiasts of the Hotokusha movement would be working the scheme of reform better if they also aimed at material progress through sound business. Such functions as accepting deposits, granting of loans to members, purchase of agricultural and domestic requirements and the marketing of the members' produce should actually be undertaken earnestly.

### **The Modern Cooperative Movement**

The modern cooperative movement in Japan is rather a product of the twentieth century. After the restoration of the Emperor in 1868, the State paid increasing attention to the economic development of the country. Import of the western methods of production was considered necessary. The farmers and the small producers were suffering from a dearth of capital. The moneylenders and the traders were exploiting them unscrupulously. It was therefore decided to introduce the German system of cooperation to help the small producers and specially the farmers who were more than 50% of the total population. The cooperative credit society was introduced in 1892. The Japanese Cooperative Law was passed in 1900. According to it a cooperative society is a "corporated juridical person organised for the purpose of promoting industrial and economic advancement of its members through the following activities :—

1. Credit—To lend money to the members for financing industry and to afford them facilities for depositing savings.
2. Sales—To sell articles produced by the members with or without further processing.

3. Purchase—To sell articles needed by the members after being purchased, produced or manufactured by the society.
4. Utility—To make available to the members machines or facilities for the development of industry or for the alleviation of their economic plight.

Thus the Law recognised four types of societies : credit societies, marketing societies (including processing), purchase societies (including domestic consumption) and utility societies. A society may however be formed for more than one of the functions mentioned above, in which case it is called a Compound Society. The membership is unlimited but in the case of credit societies the members must come from the same locality.<sup>11</sup> A member cannot hold more than thirty shares. There is a ceiling put to the value of the shares. It cannot exceed fifty yens<sup>12</sup> in the case of primary societies and 500 yens in the case of federations.

Three types of liability were recognised viz., unlimited, limited and limited by guarantee. An Act of 1932 however called for the conversion of the unlimited liability societies into either of the other two types. Deposits that may be accepted by the societies also have limits. In the unlimited liability societies it could not exceed the reserves plus five times the paid-up capital. In others it should not exceed the

<sup>11</sup> Economically-independent members are preferred, but the membership is not restricted by profession. On the whole the membership is composed of persons of small means.

It may be noted that there is no restriction that one village should have only one society. In practice, however, a society generally confines its operation to an administrative unit like a city, town or village and a federation to a province.

<sup>12</sup> One yen may be taken to be equal to twelve annas.

total liability of the members. The return on shares is limited to six per cent and under certain conditions may be up to ten per cent. Twenty-five per cent of the profit has to be allocated to the reserve fund to which are also credited the entrance fees, premium on increased value of shares etc. The balance of the profit may be distributed among the employees, among the members according to business done by them with the society, or for other purposes.

Each member has one vote. Proxy voting is permitted. For certain decisions a majority of two-thirds or more is required. In case members are drawn from more than one occupation, a two-thirds majority of members of each occupation is required. At least seven members are required for the formation of a society which may be dissolved by a decision of the general meeting, by diminution of membership below seven or by insolvency : on dissolution, remaining assets are distributed among the members.

The societies are exempt from income and business taxes. They also enjoy special privileges in regard to registration and stamp duties. The use of the word 'cooperative' is protected. The societies are registered by the State and are under its strict control and supervision. Financial facilities are extended by the State through the Central Bank of Cooperative Societies. The Cooperative Law has been amended many times to give impetus to the movement and bring about an expansion of cooperative business of every type. The Acts of 1917 and 1926 deserve special mention. They provided for the formation and control of agricultural warehouses which may undertake processing, marketing and advances against crops held. They may also do business for non-members except in matters of loans. They can get state subsidies.

Before passing to a study of the different varieties of cooperatives, it may be mentioned that Japan had, in 1938, only 15328 societies. The membership extended to about 6.8 million persons i.e. to about fourteen percent of the Japanese population. A far greater achievement than the equally aged cooperative movement in India ! It makes one wonder why our movement could not be equally successful. However, the membership per society is generally 200. Most of the Japanese cooperatives serve the rural areas : hence the agriculturist sto form the greatest percentage—about three-fourth—of the cooperative members as is evident from the following data relating to 1936 :—

<i>Occupation</i>	<i>Distribution of co-operative members (percent)</i>
Agriculturists	70.3
Industries	4.9
Traders	11.4
Fisheries	2.0
Forestry	0.2
Other occupations	11.2
	<hr/>
	100.0

### Credit Societies

As in India, the movement began with the formation of credit societies. Though it came from above, the movement has grown rapidly so much so that it has more than seven million Japanese for its members. Every depression has spurred the movement. The explanation for this lies in the vigorous propaganda done by the State through lectures, canvassing, circulars and pamphlets. The sympathies of the

village leaders, the school masters and the small officials were gained. The schools have carried on a relentless propaganda to imbue the young minds with the cooperative ideals. All this has an important lesson for the State and for us in India.

However, the credit societies were prominent up to 1917, when their number was the greatest. Since then they have gone down before the marketing cooperatives and purchase societies. To be strictly correct, the marketing and purchase activities of the multipurpose societies have gained prominence.

Whatever credit societies exist are mostly agricultural. Although societies with unlimited liability were formed in the beginning, limited liability societies continued to grow soon after. The reason for this lay in the national character of the Japanese. Before the 1932 Act was passed, eighty per cent of the credit societies were already on the limited liability basis.

Another important feature of these societies is that deposits from members have played an important role. More than seventy per cent of the working capital is by way of members' deposits. This is so because the societies pay special attention to this. The deposits may be collected by the society-officials and employees at the houses of the members. Special collectors are sometimes appointed. Savings clubs and savings days are organised. Dividends are converted into deposits. Savings boxes are supplied. Strangely enough, a pass book with a certain sum of money—infinitesimal no doubt—is presented to the members on the occasion of the birth of a child to encourage him to increase the deposit amount in that pass book. However, besides the deposits funds are also raised from federations, the Cooperative Bank, the commercial banks and even private individuals.

Each member has to pay an entrance fee and has to purchase at least one share whose value generally varies between five and twenty yens. The share money may be paid in instalments in a few years. The societies generally have two reserve funds. To one are credited the entrance fee, one-fourth of the profits and the shares left behind by the withdrawing members. To the other, called the Special Reserve Fund, a part of the profits are credited on a voluntary basis to meet unforeseen losses, to provide bonuses at the occasion of the marriage of the members and for charitable purposes. In the beginning most of the profits is credited to reserve. Curiously enough, the profits of the societies are stated to be distributed—not in proportion to the business done by each member with the society but—in proportion to the share capital held. Unlike the Raiffeisen societies, there is no indivisible reserve fund.

Loans are granted to members for productive purposes, repair of houses and even for the repayment of old debts. A security is demanded only when the loan is for a substantial amount and exceeds the credit limit of the borrower. The security may be in the form of mortgage of land or house, or government securities and debentures. The loan is usually granted for a year. Where the use of the loan means locking of capital for many years, the period of the loan may vary from three to ten years. The rate of interest varies from eight to twelve per cent per annum depending on the nature of the loan.

In every society there is an appraising committee which investigates periodically the financial condition of the members, the purpose for which the loan is required and the credit limit of each member. The credit limit is fixed from a number of aspects by allotting marks for the member's conduct,

confidence, property, public spirit and volume of business.

Special facilities are extended for the repayment of debts. Sinking fund deposits are provided. A portion of the sale proceeds of the crop are asked for, and if possible, withheld. Borrowers are asked to work for the society. A portion of interest is refunded where the loan is repaid before the due date. Lastly, borrowers showing good results in repaying debts are entertained publicly.

The surplus funds of the societies may be deposited with the federations, the Cooperative Bank or invested in government securities.

The social and ethical activities of the cooperatives are not many. Lectures are arranged. Women's associations are formed. Libraries and circulating boxes are provided. The opinion is held in certain quarters that such activities should be left for the Hotokushas and other village organisations. But the tendency to convert the cooperatives into merely capitalistic societies should be strongly deprecated.

The urban credit banks, which number a few hundred, are required to confine themselves to credit business only.

The societies are managed through the general meetings, the directors and the auditors. The directors and auditors are elected from among the members. The posts are honorary, although now a small remuneration is given. It is also customary to award bonuses. To increase the working efficiency of the directors, it seems desirable that they should be paid a good salary : in any case the managing director's job may carry adequate remuneration.

Where the membership is large and extends to a number of districts, the members elect delegates who then attend

the final general meeting with full powers to vote on all matters except dissolution of the society.

The credit societies began to form federation<sup>13</sup> since 1905 but legal recognition was accorded to them in 1909. Individuals cannot become members of the federations and unlimited liability was not allowed from the very beginning. The federations act as cooperative banks for the credit societies. They raise their funds from share capital and through loans from the Central Bank of Cooperative Societies.

The Central Bank of Cooperative Societies was set up with limited liability in 1923. Half of its shares—which amounted to fifteen million yens—are held by the State. The State does not get any dividend but the share money was to be repaid after twenty years, i.e., in 1943. The rest of the shares has been taken up by the federations and the primary societies. A federation cannot hold more than 200 shares. The value of each share is 100 yens. Funds are raised by accepting deposits and taking state loans. It even issues bonds. Generally they value at fifty yens each and are for fifteen years. The Bank discounts bills and other negotiable instruments. The rate of interest charged on loans varies from 4.1 to 5.8 per cent according to the period of the loan. The Bank carries all banking business on behalf of the cooperatives. One-tenth of the profit accrues to the reserve fund. The dividend is limited to six per cent : it can go up to eight per cent after the reserve fund is one-fourth of the share-capital. The Bank has generally declared a dividend of 3.5 per cent.

Besides the share capital, the state has lent millions of

<sup>13</sup> In 1930 there were 179 Federations of all cooperatives including the National Federation of Purchase Societies and that of Silk Marketing Societies.

yens to the Bank at 4.6 per cent. In view of the heavy stake of the government, the directors and three auditors of the Bank are appointed by the state. Their term of office is five and three years respectively. They hold full-time salaried posts carrying multifarious duties and any breach or violation involves a liability to a fine from 100 to 1000 yens. There is also a Council of twenty members with an Honorary Councillor whose term is for three years. Half of the members of the Council are persons interested in cooperative societies and the rest from among eminent financiers, economists and businessmen.

To sum up the achievements of the credit cooperatives, due to them productivity is said to have gone up both in agriculture and industries. Roads have been repaired. Diseases have been driven out. Cocoon-culture has gone up. Migration of the agriculturist to the city has been checked. Thrift and industry have been developed. Idleness, gambling and unpunctuality are being stamped out. Criminality and litigations are decreasing. Above all, the membership of a credit society has come to be reckoned a quality of the prospective bridegrooms.

Still credit societies have not been developed to the extent to which they should have been. The chief bottlenecks have been a high rate of interest, competition and opposition from other agencies (specially in the urban areas), disloyalty, apathy and discord among the members, inefficient management and lastly, differences among and insincerity of, the officers, for which politics is responsible to no small extent.

### Sales Societies

About seventy-nine per cent of the cooperative societies

in Japan undertake *inter alia* marketing activities.<sup>14</sup> They were formed with the twin object of eliminating the private middlemen and securing greater profits for the producers. It may be said at the very outset that they have succeeded in improving the condition of sales. They have even improved the quality of the produce placed on the market through drying, cleaning and warehousing operations. The sales amount to over thirty-one million yen. The goods handled are mainly rice, cocoons, raw silk, vegetable and fruits, matting, articles made from straw and textile goods.<sup>15</sup> The sales are generally made in bulk to the federations of sales societies.

The delivery of goods is generally to be made to the society by the members. In some societies collectors are sent round. In order to ensure loyal deliveries the rules provide for a fine on the defaulting members. Still to encourage loyal deliveries, the loyal members are granted cartage facilities, subsidies and even bonuses. The inspection of the quality of the goods is done at the time of the delivery by the state inspectors, some member of the society or sometimes by the inspector of the society itself. In the case of outright purchase the price ruling in the locality or that fixed by the directors is paid. Otherwise, advances are made on goods delivered up to eighty percent of the value at an interest of 12.75 per cent per annum. When the society acts as a commission agent, it deducts about 1.5 to 15 per cent of the price as its commission. The sales by the society itself may be by the ordinary method, by previous contract with pur-

<sup>14</sup> Cooperative societies exclusively for purposes of marketing are hardly a few hundred. They work in conjunction with credit and purchase societies.

<sup>15</sup> The societies for rice and silk stand prominently among the sales societies.

chasers, by inviting tenders or through auction. Sometimes the sale is made to the government departments.

The societies undertake processing as also simple manufacturing functions such as reeling of cocoons, polishing of husked rice, preservation of raw fish, condensing and canning of milk and production of oils and soaps. In most cases the society employs workers for the production activities. It is only sometimes that the machine section of a co-operative may provide its members with machinery for collective use.

In criticism of the societies it must be said that although the Warehouse Act of 1917 provides for establishment and operation of warehouses<sup>16</sup> which are freely subsidised by the State, they have mostly been used for 'storage for exchange' and for the issue of warehouse certificates and not for processing. Nor have they been used for collective marketing of goods to any appreciable extent. The societies have suffered failures on account of smallness of the quantities handled, deterioration of goods, concerted opposition by merchants, sudden and serious fluctuations in prices and bad debts. These defects indicate the necessity for efficient training of managers and for an increase of membership.

### Purchase Societies

Here also societies exclusively for purchase operations are small in number. About eighty per cent of the cooperative societies undertake the functions of a purchase society. A society is either to purchase articles for consumption or raw materials and other requirements for agriculture and ma-

<sup>16</sup> The number of warehouses is over seven thousand.

nufacture. Purchase societies<sup>17</sup> for production purposes generally deal in fertilisers, seed, silkworms, agricultural implements, poultry, raw materials and small tools and implements. They make their purchases after gauging the demand so that stocks would not be left on hand. The residue which is in practice left is used for awarding lottery prizes to loyal members : sometimes it is sold by auction or returned to the suppliers. Although loyalty to the federations is stressed, it is not binding (nor is it usual) to purchase from the federations. Where purchases are made from private wholesalers and other merchants, the prices are fixed either by inviting tenders or by negotiation.

As regards the prices at which the goods are supplied to the members, it is admitted that they should be fixed at market rates. But the agriculturists are more impressed by low prices. Hence the prices are fixed at slightly over costs. The system of making sales at credit is widely prevalent.

Though the purchase societies have secured for the members lower rates and goods of better quality, they are still faced with difficulties of management, lack of efficient directors, high working expenses and shortage of capital.

### Consumers' Stores

The consumers' movement in Japan has been definitely an upper class movement. It began among the officials and well-to-do businessmen. Apart from the spasmodic efforts made since 1879, the first store 'Kyodokai' was organised in 1901 by the civil servants attached to the house of representatives. This explains why the system of cash sales is not

<sup>17</sup> The most successful flourishing societies are those dealing in fertilisers and agricultural requirements.

maintained. Only about seven per cent observe the system of cash sales. It is sometimes argued that the Japanese are honest. May be, but still it is the societies working on the basis of cash sales which thrive even in Japan. However, the principle of sale at current price is also not observed except by thirteen per cent of the societies. Therefore the stores are neither in a position to declare decent bonuses nor able to build up funds for expansion. The stores raise loans and not infrequently the loan capital far exceeds the share capital.

Experienced sales managers are wanting. The management is left to the arbitrary discretion of the directors. The general meetings are held only to dittoe the reports. The posts of directors and auditors are honorary. Sales to non-members are not in vogue and dividends are not paid on purchases.

Members are not fully conscious of the full implications of the membership of a cooperative store. An attempt has also not been made to interest the women. The Kobe Store has however found the Home Association on the lines of the British Women's Cooperative Guild. With a view to develop the stores movement, Leagues of Cooperative Stores are being organised. These are federations to purchase articles in bulk.

To no small extent the slow and halting success of the stores has been due to the State itself. Workers have been regarded as heralds of socialism : hence even the law does not provide for workers' societies. Since 1918 with the growth of workers the real working class stores have been on the increase. In 1936 there were 150 stores with 1.25 lakh members and an annual business of ten mililon dollars. These include

students' stores whose aim is not only to reduce the school expenses but also to give a cooperative training to the citizens of the future.

Mention must also be made of two more forms of consumers' cooperation. There were in 1936 some 2700 building societies with 59000 members which mainly rented<sup>18</sup> buildings for the members. Some even lend money for building purposes to the member. There are also associations to provide service and appliances necessary for domestic economy. Of these the most important are those undertaking supply of electric power.

### Utility Societies

The object of a utility society (*Riyo Kumiai*) is to provide premises or plant necessary for industry or economy for the common use of members. Before 1921 the law did not allow the cooperative stores to undertake productive activities. The utility societies were then called 'productive societies' and their object was not for 'industry or economy' but for 'manufacture'. Now there can be machinery societies for producers and machinery societies for consumers. The former generally make expensive machines and implements available for use by poor farmers and small producers. A growing feature of the societies is the provision of medical facilities at one-third to one-half of the market rates. There are over one hundred medical hospitals whose doctors and nurses make a daily round of the villages and bring the sick to the hospital.

<sup>18</sup> Cf. In U. S. A. and Britain the building societies help the members to obtain houses for themselves.

### Cooperative Union

Japan has also a Cooperative Union with headquarters in the Cathedral of Cooperation, Tokyo. It was formed in 1905, though the legal recognition was extended to it in 1910. The membership is open to federations, societies and individuals. It trains employees of cooperatives in its college, organises lectures, publishes many bulletins and two journals viz., *Cooperation* (*Sangyo Kumiai*) and 'Home Light' (*Iyenohikari*). The cooperative movement is promoted through posters, films and gramophone records. The Union even promotes the establishment of cooperative societies. It collects the statistics about the movement from the reports received from the societies. It maintains a club with hotel arrangements.

### State And Cooperative Movement

The cooperative movement in Japan is mainly due to the State. It came from above and has all along been promoted through friendly and sympathetic advice and guidance provided by the State. The Government has never failed to amend the Act to give an impetus to the movement. Besides the usual exemption of the societies from certain taxes, subsidies are granted, funds are lent and marketing societies are patronised. The cooperatives are however supervised strictly. Cooperation is under the charge of the Minister for Agriculture and one of the four secretaries under him is responsible for cooperative societies.<sup>19</sup> There are no registrars. The secretary works through inspectors who perform many

<sup>19</sup> The other three secretaries are for agricultural credit, rural industries and general work.

of the functions of a registrar of cooperative society in India. Whenever it is found that the society in a certain area is not working properly, an attempt is not made to dissolve it. Instead, a lecturer is deputed to explain to the people concerned the principles and advantages of cooperation i.e., to improve the society by reforming the mentality of the members and other inhabitants of the area.

### Conclusion

The defects of the cooperative societies in Japan are not different from those of cooperatives elsewhere. Still some of its marked features deserve recognition—even adoption in India. The Jap cooperatives prove the success of multipurpose activity and lend greater importance to the principle of limited liability. They also indicate the great effect of special recognition and advertisement of the loyal members on the development of the movement—a fact which has not yet been recognised in this country. Lastly, it shows what a state, which is really interested in the people and their movement, can do. Strict control and supervision have been co-ordinated with a constructive and active support for funds, facilities, concessions and guidance—a strange contrast to what one finds in India.

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